



State of New Jersey

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January 26, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Equity Investment – PSG VI, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in PSG VI, L.P. (the “Fund”) managed by PSG Equity (the “Firm”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

Strong Overall Performance & Portfolio Fit:

Investing capital into PSG VI allows the Division to make a commitment to a new, high-conviction manager that can help drive strong returns for the private equity portfolio. The Division currently has capacity to increase the “Growth Equity” exposure. Additionally, the manager has generated a net IRR of 32.4%, net TVPI of 1.67x, and DPI of 0.6x. When benchmarked against North American mid cap and small cap buyout, and growth equity firms of similar vintages mature PSG funds have regularly produced first and second quartile rankings.

Experienced Team & Thematic Approach: PSG is led by Mark Hastings and Peter Wilde. Both Mark and Peter have over 25 years of private equity investment experience and oversee an experienced team of 137 professionals in North America and six professionals in Israel (collectively, the “PSG U.S. Team”) that is primarily responsible for managing PSG VI. One of the largest teams focused on emerging growth B2B software companies with multiple levers to meet the needs of a growing portfolio company. The Operations Team is led by John Clancy, Managing Director and Head of Operations, the operations leadership team has over 150 years combined experience and the broader team includes dedicated operations professionals with over 250 years combined experience. The dedicated Sourcing Team is led by Bill Skarinka, Managing Director, and is augmented by PSG’s proprietary sourcing framework OPTX. PSG’s deep teams of industry professionals invest in bootstrapped founder and family-led businesses targeting growth oriented, lower-middle market software, data, and technology-enabled service providers that have proven business models with mission-critical applications, substantial recurring revenue, experienced management teams, high capital efficiency and differentiated technologies located primarily in North America.

A report of the Investment Policy Committee (“IPC”) summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, Aksia LLC, undertook extensive due diligence on the proposed investment in accordance with the Division’s Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the fund engaged a third-party solicitor (“placement agent”) in the fundraising of the fund, but the placement agent was not used to solicit New Jersey’s potential investment.

The Firm has a formal ESG Policy. PSG’s current ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council’s ESG Policy. PSG incorporates ESG consideration into its investment process and will continue to monitor ESG factors post investment.

Staff will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4), and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 90 of the Council’s regulations. PSG VI, L.P. is considered a private equity investment, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the IPC was held on January 23, 2024. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council’s January 31, 2024.

Attachment

PSG VI, L.P.

- **DOI Commitment:** \$100 million
- **Strategy:** Growth Equity
- **Investment Focus:** PSG VI will seek investments in North America with bootstrapped founder and family-led businesses targeting growth oriented, lower-middle market software, data and technology-enables service providers. PSG plans to construct a portfolio of ~50 investments with equity checks expected to be between \$10 million to \$150 million.
- **Target Returns:** 3.0x Gross MOIC
- **Investments Thesis:**
 - Strong and consistent overall performance
 - Expertise in enterprise and tech-enabled technologies
 - Operational Value Creation
 - Sourcing Team/ System OPTX AI and ML Platform

Fund Name: *PSG VI, L.P.*

January 26, 2024

Contact Info: *Lisa Lee, 401 Park Drive, Suite 204, Boston, MA*

Fund Details:

Total Firm Assets:	\$22 Billion	Key Investment Professionals: Mark Hastings: Mr. Hastings is a co-founder and CEO of PSG. Previously, he was founder and a managing partner of Garvin Hill Capital Partners. Prior to forming Garvin Hill in 2009, Mr. Hastings led CIBC's technology focused growth equity team in the U.S. Before his career at CIBC, he was a principal and general partner at BCI Partners. He started his career at Edison Ventures. Peter Wilde: Mr. Wilde is a co-founder and Chairman of PSG and is based in the Firm's Boston office. He is a member of the investment committee of PSG's North America and European funds. Peter joined Providence Equity Partners in 2002, and co-ran North America from 2012 to 2020. Marco Ferrari: Mr. Ferrari is a Managing Director at the Firm's Boston office. Prior to joining PSG, he was a principal at BV Investment Partners, where he focused on information services, communications and business services investments. Before BV Investments, he was an investment partners at Siemens Venture Capital. Tom Reardon: Mr. Reardon is a managing director in the Firm's Boston office. Previously, he was a general partner at WestView Capital Partners and focused on software and technology-enabled business service investments. Prior to WestView, he was a director at CIBC Capital Partners and previously co-founded Revolution Partners as an associate and worked at Roberston Stephens & Co. as an analyst in the software group. Adam Marcus: Mr. Marcus is a managing director in the Boston office. Previously he was at partner at OpenView Venture Partners, where he invested in SaaS and infrastructure companies. Prior to OpenView Partners, Adam was an investor at Battery Ventures where he focused on B2B software and ecommerce sectors globally. Adam received a Master of Business Administration from the Tuck School at Dartmouth College and a Bachelor of Arts from Franklin and Marshall College.
Strategy:	Growth Equity	
Year Founded:	2014	
Headquarters:	Boston, MA	
GP Commitment:	\$265 million	

Investment Summary

PSG is focused on seeking private equity investments principally in growth-oriented, lower middle market companies, primarily in North America across software, data and technology-enabled providers in a variety of industries. PSG creates value by improving the operations of smaller software companies that have unique solutions for businesses that are digitizing their operations. The Fund will target businesses that have proven product market fit, are capital efficient, can achieve high organic growth and have the potential to scale in size through accretive mergers and acquisitions.

Existing and Prior Funds

Net as of 6/30/2023

<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns: Net IRR, Net TVPI, Net DPI</i>
Providence Strategic Growth L.P.	2014	Growth Equity	26.1%, 1.63x, 1.16x
Providence Strategic Growth II L.P.	2016	Growth Equity	38.9%, 2.46x, 1.65x
Providence Strategic Growth III L.P.	2017	Growth Equity	28.7%, 2.07x, 1.06x
Providence Strategic Growth IV L.P.	2019	Growth Equity	48.1%, 1.99x, 0.56x
PSG V L.P.	2021	Growth Equity	8.1%, 1.08x, .02x

Source of Returns -Aksia

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In

Vehicle Information:

PSG VI L.P.

Inception: 2023
 Fund Size : \$6.5 billion
 Management Fee: 2.0% on Committed Capital during the Investment Period; 1.5% on Active Invested Capital during the Harvest Period
 Incentive Fee: 20% with a 8% Hurdle
 Additional Expenses: 100% Management Fee Offset

Auditor: Ernst & Young
 Legal Counsel: Debevoise & Pimpton

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$100 million	LP Advisory Board Membership:	Observer
% of PSG VI:	1.54%	Consultant Recommendation:	YES
		Placement Agent:	YES
		Compliance w/ Division Placement Agent Policy:	YES
		Compliance w/ SIC Political Contribution Reg:	YES

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.